HSBC AMANAH MALAYSIA BERHAD
(Company No.807705-X)
(Incorporated in Malaysia)
Capital Adequacy Framework for Islamic Banks (CAFIB) - Pillar 3 Disclosures
at 31 December 2011

CHIEF EXECUTIVE OFFICER'S ATTESTATION

I, Mohamed Rafe bin Mohamed Haneef, being the Chief Executive Officer of HSBC Amanah Malaysia Berhad, do hereby state that, in my opinion, the Pillar 3 Disclosures set out on pages 2 to 21 have been prepared according to the Capital Adequacy Framework for Islamic Banks (CAFIB) - Pillar 3 Disclosures, and are accurate and complete.

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MOHAMED RAFE BIN MOHAMED HANEEF

CHIEF EXECUTIVE OFFICER
15 February 2012

HSBC AMANAH MALAYSIA BERHAD
(Company No.807705-X)
(Incorporated in Malaysia)
Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures
at 31 December 2011

(a) Introduction

HSBC Amanah Malaysia Berhad ("the Bank") is principally engaged in the provision of Islamic banking business and related financial services. As at the reporting date, the Bank doesn't have any subsidiaries.

(b) Basel II

The Bank's lead regulator, Bank Negara Malaysia ("BNM") sets and monitors capital requirements for the Bank. With effect from 2008, the Bank is required to comply with the provisions of the Basel II framework in respect of regulatory capital. The Bank adopts the Standardised approach for Credit, Operational and Market Risk in its trading portfolios.

Basel II is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline. Pillar 3 aims to encourage market discipline by developing a set of disclosure requirements which allow market participants to assess certain specific information on the capital management processes, and risk assessment processes, and hence the capital adequacy of the institution. Disclosures consist of both quantitative and qualitative information and are provided at the consolidated level. Banks are required to disclose all their material risks as part of the Pillar 3 framework. All material and non proprietary information required by Pillar 3 is included in the Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures as at 31 December 2011. BNM permits certain Pillar 3 requirements to be satisfied by inclusion within the financial statements. Where this is the case, references are provided to relevant sections in the Financial Statements as at 31 December 2011.

(c) Transferability of capital and funds

HSBC Bank Malaysia Berhad is the primary provider of equity capital to the Bank. The Bank manages its own capital to support its planned business growth.

(d) Internal assessment of capital adequacy

The Bank assesses the adequacy of its capital by considering the resources necessary to cover unexpected losses arising from discretionary risks, being those which it accepts such as credit risk and market risk, or non-discretionary risks, being those which arise by virtue of its operations, such as operational and reputational risk.

The methods to undertake this assessment is contained in the Bank's Internal Capital Adequacy Assessment Process (ICAAP). This process ensures that the Bank's level of capital:
- Remains sufficient to support the Bank's risk profile and outstanding commitments
- Exceeds the Bank's formal minimum regulatory requirements
- Is capable of withstanding a severe economic downturn stress scenario

The ICAAP is a comprehensive document designed to evaluate the risk profile, processes for identifying, measuring and controlling risks, capital requirements, capital resources and compliance with standards laid down by BNM. It plays an increasingly crucial role in developing risk-based capital management capabilities, by incorporating different aspects of risk management framework including stress testing and risk appetite.

The ICAAP demonstrates the extent to which capital management is embedded in the Bank. In particular, the ICAAP demonstrates the extent to which the implications of its capital buffers has been considered on a forward-looking basis by providing the analysis that the Bank remains above the minimum Regulatory Capital (RC) requirement on a consolidated basis and established monitoring triggers against the Capital Adequacy Ratio.

Refer to Note 32 of the financial statements at 31 December 2011 for the total risk weighted capital ratio and Tier 1 capital ratio, and risk weighted assets and capital requirements for credit risk, market risk and operational risk.

Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures (Cont'd)

(d) Internal assessment of capital adequacy (Cont'd)

Stress Testing

Stress testing and scenario analysis form an integral part of ICAAP to demonstrate that the Bank can maintain risk capital sufficient enough to sustain operations during an economic downturn. Essentially, stress testing is to make risks more transparent by estimating the potential losses on the exposures under the abnormal market or economic conditions. It will also assess specifically the extent by which risk-weighted assets and capital requirements will increase, and how profit and loss as well as liquidity level will change. The results of the analyses will facilitate informed financial and capital management whilst supporting business lines to manage their business through various measures such as establishing triggers and devising mitigation actions which can be readily implemented should the adverse scenarios materialise.

Reverse stress testing is a separate but complementary exercise to scenario stress testing. Reverse stress testing requires assessments of scenarios and circumstances that would render a business model unviable, thereby identifying potential business vulnerabilities. It starts from an outcome of business failures and identifies circumstances under which this might occur. This is different from scenario stress testing which tests for outcomes arising from changes in circumstances.

In line with BNM’s Guideline on Stress Testing and the Bank's Policy Paper for Stress Testing, a Stress Test Steering Committee (STSC) is established. STSC conducts stress testing on a quarterly basis based on the guidelines and methodology endorsed by the Board. Stress tests are performed for different risk types including market, credit, operational and liquidity risk. The analysis makes use of the actual general ledger, profit and loss and risk positions (the base case) to estimate the impact on profits and risk-weighted assets (the gross impact). It also incorporates the impact of management actions to determine whether or not the Bank is able to withstand such an event (the net impact).

Risk Appetite

Risk appetite is a central component of an integrated approach to risk, capital and value management and an important mechanism to realise its strategic vision and corporate strategy. Our risk appetite framework aims to introduce a more explicit and consistent consideration of risk and capital into the Group's strategy formulation, business planning, execution and measurement/reporting processes throughout the Group so as to achieve the Group's return on equity ambitions. Risk appetite applies to our planning activities, strategic investments and running of our operations across all regions, businesses and customer groups.

The Bank's risk appetite framework provides a structured approach to the management, measurement, and control of risks, by explaining the processes, policies, metrics, governance and other features of how to address risk appetite as part of on-going business. Risk Appetite forms an integral part of the Bank's ICAAP to ensure sufficient capital resources for the risk profile across business lines. The formulation of risk appetite considers risk capacity, financial position, strength of its core earnings and resilience of reputation and brand. It is expressed in both qualitative statements (e.g. describing which risks are taken and why) alongside quantitative measures (e.g. tolerable operational losses).

By incorporating quantitative metrics, the Bank is ensuring that:

- Underlying business activity may be guided and controlled so that it continues to be aligned to the risk appetite framework;
- Key assumptions underpinning the risk appetite can be monitored and, as necessary, adjusted through subsequent business plan iterations; and
- Anticipated mitigating business decisions are flagged and acted upon promptly

(e) Capital structure

For regulatory purposes, the Bank’s regulatory capital is divided into two categories, or tiers. These are Tier 1 and Tier 2. The main features of capital securities issued by the Bank are disclosed below:

- Tier 1 capital includes ordinary share capital, share premium, retained earnings, statutory reserves and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes. (Refer to Note 32 of the financial statements at 31 December 2011 for the amount of Tier 1 capital and a breakdown of its components).
- Tier 2 capital includes collective impairment allowances (excluding collective impairment allowances attributable to financing classified as impaired) and the element of the fair value reserve relating to revaluation of property. (Refer to Note 32 of the financial statements at 31 December 2011 for the amount of Tier 2 capital and a breakdown of its components).

(f) Risk management policies

All of the Bank’s activities involve analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The Bank has exposure to the following risks from financial instruments:

- credit risk
- liquidity risk
- market risk (includes foreign exchange, profit rate and equity/commodity price risk)
- operational risk

Refer to Note 4 of the financial statements at 31 December 2011 for the Bank's risk managements policies on the above mentioned risks.

1) Credit Risk

Refer to Note 4 b) of the financial statements at 31 December 2011 for definitions of past due and impaired financing. The approaches for the determination of individual and collective impairment provisions are detailed in Note 3 k) of the financial statements as at 31 December 2011.

Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Interim Disclosures (Cont'd)

(f) Risk management policies (Con'td)

1) Credit Risk (Cont'd)

Table 1: Geographical distribution of financing and advances broken down by type

	31 Dec 2011				
RM'000	**Northern**	**Southern**	**Central**	**Eastern**	**Total**
Cash line	**10,191**	**11,553**	**27,853**	**156**	**49,753**
Term financing					
Housing financing	**210,611**	**183,730**	**804,051**	**73,959**	**1,272,351**
Hire purchase receivables	**46,380**	**62,638**	**85,164**	**64,452**	**258,634**
Lease receivables	**129**	**-**	**-**	**-**	**129**
Other term financing	**747,780**	**738,065**	**2,896,451**	**246,884**	**4,629,180**
Trust receipts	**11,275**	**-**	**12,916**	**946**	**25,137**
Claims on customers under acceptance credits	**271,329**	**77,319**	**302,330**	**403,900**	**1,054,878**
Staff financing	**1,457**	**1,316**	**16,655**	**950**	**20,378**
Credit/charge cards	**88,626**	**58,574**	**196,752**	**21,995**	**365,947**
Revolving credit	**48,976**	**1,100**	**118,615**	**35**	**168,726**
Unearned income	**(18,892)**	**(20,174)**	**(64,288)**	**(10,844)**	**(114,198)**
	1,417,862	**1,114,121**	**4,396,499**	**802,433**	**7,730,915**

	31 Dec 2010 (As restated)				
RM'000	Northern	Southern	Central	Eastern	Total
Cash line	7,225	686	6,518	73	14,502
Term financing					
Housing financing	80,253	59,069	298,800	22,051	460,173
Hire purchase receivables	28,313	42,981	65,841	39,246	176,381
Lease receivables	187	-	-	-	187
Other term financing	515,984	321,441	2,078,459	218,759	3,134,643
Trust receipts	-	-	704	-	704
Claims on customers under acceptance credits	262,764	54,532	315,889	124,892	758,077
Staff financing	772	431	7,757	372	9,332
Credit/charge cards	70,021	46,723	127,198	17,575	261,517
Revolving credit	-	-	-	-	-
Unearned income	(10,977)	(9,014)	(39,933)	(6,803)	(66,727)
	954,542	516,849	2,861,233	416,165	4,748,789

Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Interim Disclosures (Cont'd)

(f) Risk management policies (Con'td)

1) Credit Risk (Cont'd)

Table 2: Geographical distribution of impaired financing broken down by type

RM'000	**31 Dec 2011** Northern	Southern	Central	Eastern	Total
Cash line	**-**	**-**	**877**	**-**	**877**
Term financing					
Housing financing	**2,992**	**6,734**	**8,255**	**75**	**18,056**
Hire purchase receivables	**2,525**	**1,047**	**656**	**324**	**4,552**
Lease receivables	**-**	**-**	**-**	**-**	**-**
Other term financing	**19,095**	**13,463**	**46,421**	**5,541**	**84,520**
Bills receivable	**-**	**-**	**-**	**-**	**-**
Trust receipts	**-**	**-**	**-**	**-**	**-**
Claims on customers under acceptance credits	**4,409**	**113**	**2,924**	**-**	**7,446**
Staff financing	**-**	**-**	**-**	**-**	**-**
Credit/charge cards	**3,001**	**1,700**	**5,002**	**534**	**10,237**
Revolving credit	**-**	**-**	**-**	**-**	**-**
	32,022	**23,057**	**64,135**	**6,474**	**125,688**

RM'000	31 Dec 2010 (As restated) Northern	Southern	Central	Eastern	Total
Cash line	-	-	-	-	-
Term financing					
Housing financing	504	1,218	452	44	2,218
Hire purchase receivables	403	1,192	876	78	2,549
Lease receivables	-	-	-	-	-
Other term financing	11,757	8,890	26,399	6,377	53,423
Bills receivable	-	-	-	-	-
Trust receipts	-	-	-	-	-
Claims on customers under acceptance credits	4,379	113	-	-	4,492
Staff financing	-	-	-	-	-
Credit/charge cards	2,176	1,452	3,954	546	8,128
Revolving credit	-	-	-	-	-
	19,219	12,865	31,681	7,045	70,810

The Northern region consists of the states of Perlis, Kedah, Penang, Perak, Kelantan, Terengganu and Pahang.
The Southern region consists of the states of Johor, Malacca and Negeri Sembilan.
The Central region consists of the states of Selangor and the Federal Territory of Kuala Lumpur .
The Eastern region consists of the states of Sabah, Sarawak and the Federal Territory of Labuan.

Concentration by location for financing and advances is based on the location of the customer.

Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Interim Disclosures (Cont'd)

(f) Risk management policies (Con'td)

1) Credit Risk (Cont'd)

Table 3: Residual contractual maturity of financing and advances broken down by type

	31 Dec 2011				
(RM'000	**Maturing within one year**	**One year to three years**	**Three years to five years**	**Over five years**	**Total**
Cash line	**49,753**	**-**	**-**	**-**	**49,753**
Term financing					
Housing financing	**46,013**	**6,592**	**4,093**	**1,215,653**	**1,272,351**
Hire purchase receivables	**15,837**	**113,218**	**121,324**	**8,255**	**258,634**
Lease receivables	**28**	**101**	**-**	**-**	**129**
Other term financing	**2,192,797**	**575,463**	**1,079,104**	**781,816**	**4,629,180**
Trust receipts	**25,137**	**-**	**-**	**-**	**25,137**
Claims on customers under acceptance credits	**1,054,878**	**-**	**-**	**-**	**1,054,878**
Staff financing	**941**	**312**	**1,041**	**18,084**	**20,378**
Credit/charge cards	**365,947**	**-**	**-**	**-**	**365,947**
Revolving credit	**168,726**	**-**	**-**	**-**	**168,726**
Unearned income	**(43,048)**	**(21,501)**	**(31,777)**	**(17,872)**	**(114,198)**
	3,877,009	**674,185**	**1,173,785**	**2,005,936**	**7,730,915**

	31 Dec 2010				
RM'000	Maturing within one year	One year to three years	Three years to five years	Over five years	Total
Cash line	14,502	-	-	-	14,502
Term financing					
Housing financing	27,766	5,056	9,832	417,519	460,173
Hire purchase receivables	7,468	95,006	73,907	-	176,381
Lease receivables	29	158	-	-	187
Other term financing	1,436,120	554,726	870,529	273,268	3,134,643
Trust receipts	704	-	-	-	704
Claims on customers under acceptance credits	758,077	-	-	-	758,077
Staff financing	191	522	1,230	7,389	9,332
Credit/charge cards	261,517	-	-	-	261,517
Revolving credit	-	-	-	-	-
Unearned income	(22,840)	(16,432)	(19,543)	(7,912)	(66,727)
	2,483,534	639,036	935,955	690,264	4,748,789

Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Interim Disclosures (Cont'd)

(f) Risk management policies (Con'td)

1) Credit risk (Cont'd)

Table 4: Distribution of financing by sector, broken down by type

31 Dec 2011
RM'000

	Cash line	Housing financing	Hire purchase receivables	Lease receivables	Other term financing	Trust receipts	Claims on customers under acceptances credits	Staff financing	Credit/ charge card	Revolving credit	Unearned income	Total
Agricultural, hunting, forestry and fishing	1,475	-	3,470	-	352,547	-	144,848	-	-	-	(6,994)	495,346
Mining and quarrying	-	-	15,279	-	146,631	-	349	-	-	-	(4,204)	158,055
Manufacturing	11,123	-	116,660	129	828,344	7,243	551,859	-	-	50,455	(26,594)	1,539,219
Electricity, gas and water	-	-	731	-	60,504	3,980	12,625	-	-	-	(1,212)	76,628
Construction	4,907	-	17,690	-	124,692	-	38,747	-	-	74,819	(4,015)	256,840
Real estate	104	-	-	-	401,545	-	-	-	-	-	(7,595)	394,054
Wholesale & retail trade and restaurants & hotels	2,558	-	38,307	-	84,840	11,669	193,293	-	-	35,452	(5,191)	360,928
Transport, storage and communication	5,411	-	20,779	-	375,486	-	6,639	-	-	8,000	(9,047)	407,268
Finance, insurance and business services	11,421	-	26,016	-	132,851	2,245	13,310	-	-	-	(4,948)	180,895
Household-retail	11,269	1,272,351	17,585	-	1,709,423	-	-	20,370	365,947	-	(36,401)	3,360,544
Others	1,485	-	2,117	-	412,317	-	93,208	8	-	-	(7,997)	501,138
	49,753	1,272,351	258,634	129	4,629,180	25,137	1,054,878	20,378	365,947	168,726	(114,198)	7,730,915

31 Dec 2010
RM'000

	Cash line	Housing financing	Hire purchase receivables	Lease receivables	Other term financing	Trust receipts	Claims on customers under acceptances credits	Staff financing	Credit/ charge card	Revolving credit	Unearned income	Total
Agricultural, hunting, forestry and fishing	578	-	1,777	-	94,477	-	2,549	-	-	-	(1,593)	97,788
Mining and quarrying	-	-	6,849	-	133,763	-	107	-	-	-	(2,615)	138,104
Manufacturing	6,064	-	92,034	187	455,143	27	552,021	-	-	-	(14,618)	1,090,858
Electricity, gas and water	-	-	891	-	-	615	10,841	-	-	-	(74)	12,273
Construction	246	-	5,390	-	48,814	-	27,535	-	-	-	(1,195)	80,790
Real estate	-	-	-	-	328,768	-	-	-	-	-	(5,030)	323,738
Wholesale & retail trade and restaurants & hotels	1,129	-	10,924	-	85,573	62	135,747	-	-	-	(2,216)	231,219
Transport, storage and communication	2,692	-	9,311	-	222,360	-	2,871	-	-	-	(4,175)	233,059
Finance, insurance and business services	2,026	-	26,478	-	187,950	-	22,034	-	-	-	(5,074)	233,414
Household-retail	1,750	460,173	20,172	-	1,270,187	-	2,807	9,332	261,517	-	(25,219)	2,000,719
Others	17	-	2,555	-	307,608	-	1,565	-	-	-	(4,918)	306,827
	14,502	460,173	176,381	187	3,134,643	704	758,077	9,332	261,517	-	(66,727)	4,748,789

Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Interim Disclosures (Cont'd)

(f) Risk management policies (Con'td)

1) Credit risk (Cont'd)

Table 5: Distribution of impaired financing by sector, broken down by type

31 Dec 2011
RM'000

	Cash line	**Housing financing**	**Hire purchase receivables**	**Lease receivables**	**Other term financing**	**Trust receipts**	**Claims on customers under acceptances credits**	**Staff financing**	**Credit/ charge card**	**Revolving credit**	**Total**
Manufacturing	**274**	**-**	**3,900**	**-**	**1,066**	**-**	**3,828**	**-**	**-**	**-**	**9,068**
Wholesale & retail trade and restaurants & hotels	**-**	**-**	**324**	**-**	**340**	**-**	**3,617**	**-**	**-**	**-**	**4,281**
Transport, storage and communication	-	-	-	-	-	-	-	-	-	-	-
Finance, insurance and business services	-	-	-	-	-	-	-	-	-	-	-
Household-retail	**602**	**18,056**	**328**	**-**	**83,116**	**-**	**-**	**-**	**10,237**	**-**	**112,339**
	876	**18,056**	**4,552**	**-**	**84,522**	**-**	**7,445**	**-**	**10,237**	**-**	**125,688**

31 Dec 2010
RM'000

	Cash line	Housing financing	Hire purchase receivables	Lease receivables	Other term financing	Trust receipts	Claims on customers under acceptances credits	Staff financing	Credit/ charge card	Revolving credit	Total
Manufacturing	-	-	1,804	-	250	-	875	-	-	-	2,929
Wholesale & retail trade and restaurants & hotels	-	-	-	-	1,628	-	3,618	-	-	-	5,246
Transport, storage and communication	-	-	80	-		-	-	-	-	-	80
Finance, insurance and business services	-	-	664	-	21	-	-	-	-	-	685
Household-retail	-	2,218	-	-	51,524	-	-	-	8,128	-	61,870
	-	2,218	2,548	-	53,423	-	4,493	-	8,128	-	70,810

Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Interim Disclosures (Cont'd)

(f) Risk management policies (Con'td)

1) Credit Risk (Cont'd)

Table 6: Past due financing broken down by sector *	**31 Dec 2011**	31 Dec 2010
	RM'000	RM'000
Manufacturing	**24,634**	9,619
Wholesale & retail trade and restaurants & hotels	**11,630**	17,228
Transport, storage and communication	**-**	263
Finance, insurance and business services	**-**	2,250
Household-retail	**305,182**	203,178
	341,446	232,538

Table 7: Past due financing broken down by geographical location*	**31 Dec 2011**	31 Dec 2010 *Restated (see Note 4)*
	RM'000	RM'000
Northern region	**86,991**	53,998
Southern region	**62,637**	47,286
Central region	**174,231**	108,118
Eastern region	**17,587**	23,136
	341,446	232,538

* The amount of impaired financing broken down by sector and geographical location is disclosed in Note 10 (iv) and 10 (vi) of the financial statements at 31 December 2011 and 2010 respectively.

Table 8: Individual and collective impairment provision broken down by sector

	31 Dec 2011		31 Dec 2010	
	RM'000		RM'000	
	Individual impairment provision	**Collective impairment provison**	Individual impairment provision	Collective impairment provision
Agricultural, hunting, forestry and fishing	**-**	**7,454**	-	1,468
Mining and quarrying	**-**	**2,379**	-	2,073
Manufacturing	**7,742**	**23,047**	3,881	16,316
Electricity, gas and water	**-**	**1,153**	-	184
Construction	**-**	**3,865**	-	1,213
Real estate	**6,319**	**5,835**	1,882	4,831
Wholesale & retail trade and restaurants & hotels	**3,800**	**5,374**	-	3,471
Transport, storage and communication	**15**	**6,129**	-	3,498
Finance, insurance and business services	**-**	**2,722**	-	3,504
Household-retail	**50,908**	**49,808**	35,310	29,503
Others	**485**	**7,534**	785	4,594
	69,269	**115,300**	41,858	70,655

Table 9: Individual and collective impairment provision broken down by geographical location

	31 Dec 2011		31 Dec 2010 *Restated (see Note 4)*	
	RM'000		RM'000	
	Individual impairment provision	**Collective impairment provison**	Individual impairment provision	Collective impairment provision
Northern region	**6,050**	**21,246**	4,399	14,262
Southern region	**1,066**	**16,750**	1,359	7,738
Central region	**61,827**	**65,233**	36,063	42,409
Eastern region	**326**	**12,071**	37	6,246
	69,269	**115,300**	41,858	70,655

Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Interim Disclosures (Cont'd)

(f) Risk management policies (Con'td)

1) Credit Risk (Cont'd)

Table 10: Charges and write-offs for individual impairment provisions ("IIP") during the period broken down by sector

	31 Dec 2011		31 Dec 2010	
	RM'000		RM'000	
	IIP charges	**Write-off of IIP**	IIP charges	Write-off of IIP
Manufacturing	**5,521**	**-**	1,374	105
Electricity, gas and water	**-**	**-**	-	11
Real estate	**6,874**	**-**	661	-
Wholesale & retail trade and restaurants & hotels	**781**	**85**	68	-
Finance, insurance and business services	**-**	**-**	664	-
Household-retail	**84,193**	**75,543**	65,829	61,369
Others	**221**	-	173	60
	97,590	**75,628**	68,769	61,545

The reconciliation of changes in financing impairment provisions is disclosed in Note 10(ii) of the financial statements at 31 December 2011.

Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures (Cont'd)

(f) Risk management policies (Con'td)

1) Credit Risk (Cont'd)

i) External Credit Assessment Institutions

The standardised approach requires banks to use risk assessments prepared by External Credit Assessment Institutions ("ECAIs") to determine the risk weightings applied to rated counterparties.

ECAIs are used by the Bank as part of the determination of risk weightings for the following classes of exposure:
• Sovereigns and Central Banks
• Multilateral development banks (MDBs)
• Public sector entities (PSEs)
• Corporates
• Banks
• Securities firms

For the purpose of Pillar 1 reporting to the regulator, the Group uses the external credit ratings from the following ECAIs:
• Fitch Ratings (Fitch)
• Moody's Investors Services (Moody's)
• Standard & Poor's Rating Services (S&P)
• RAM Rating Services Berhad (RAM)
• Malaysian Rating Corporation Berhad (MARC)

Data files of external ratings from the nominated ECAIs are matched with the customer records in the Bank's centralised credit database. When calculating the risk-weighted value of any exposure under the standardised approach, the customer in question is identified and matched to a rating, according to BNM's selection rules. The relevant risk weight is then derived using the BNM's prescribed risk weights and rating categories mapping as appended below. All other exposure classes are assigned risk weightings as prescribed in the BNM's framework.

Sovereigns and Central Banks

Rating Category	S&P	Moody's	Fitch	Risk weight
1	AAA to AA-	Aaa to Aa3	AAA to AA-	0%
2	A+ to A-	A1 to A3	A+ to A-	20%
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	50%
4	BB+ to B-	Ba1 to B3	BB+ to B-	100%
5	CCC+ to D	Caa1 to C	CCC+ to D	150%
Unrated	-	-	-	100%

Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures (Cont'd)

(f) Risk management policies (Con'td)

1) Credit Risk (Cont'd)

i) External Credit Assessment Institutions (Cont'd)

Banking Institutions

Rating Category	S&P	Moody's	Fitch	RAM	MARC	Risk weight	Risk weight (original maturity of 6 months or less)	Risk weight (original maturity of 3 months or less)
1	AAA to AA-	Aaa to Aa3	AAA to AA-	AAA to AA3	AAA to AA-	20%	20%	20%
2	A+ to A-	A1 to A3	A+ to A-	A1 to A3	A+ to A-	50%	20%	20%
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	BBB+ to BBB-	BBB+ to BBB-	50%	20%	20%
4	BB+ to B-	Ba1 to B3	BB+ to B-	BB1 to B3	BB+ to B-	100%	50%	20%
5	CCC+ to D	Caa1 to C	CCC+ to D	C1 to D	C+ to D	150%	150%	20%
Unrated	-	-	-	-	-	50%	20%	20%

Corporate

Rating Category	S&P	Moody's	Fitch	RAM	MARC	Risk weight
1	AAA to AA-	Aaa to Aa3	AAA to AA-	AAA to AA3	AAA to AA-	20%
2	A+ to A-	A1 to A3	A+ to A-	A1 to A3	A+ to A-	50%
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	BBB+ to BBB-	BBB+ to BBB-	100%
4	BB+ to B-	Ba1 to B3	BB+ to B-	BB1 to B3	BB+ to B-	150%
Unrated	-	-	-	-	-	100%

Banking Institutions and Corporate (Short term ratings)

Rating Category	S&P	Moody's	Fitch	RAM	MARC	Risk weight
1	A-1	P-1	F1+, F1	P-1	MARC-1	20%
2	A-2	P-2	F2	P-2	MARC-2	50%
3	A-3	P-3	F3	P-3	MARC-3	100%
4	Others	Others	B to D	NP	MARC-4	150%

Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Interim Disclosures (Cont'd)

1) Credit Risk (Cont'd)

i) External Credit Assessment Institutions (Cont'd)

Risk weights under the standardised approach as at the reporting date are reflected under Note 32 to the financial statements. Rated and unrated exposures according to ratings by ECAIs as at reporting date are as follows:-

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	Ratings of Corporate by Approved ECAIs					
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B+ to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB to BB	B to D	Unrated
Exposure Class	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
On and Off Balance-Sheet Exposures						
Corporates		**45,692**	**110,740**	**64,830**	**-**	**4,441,114**
Total		**45,692**	**110,740**	**64,830**	**-**	**4,441,114**

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	Ratings of Corporate by Approved ECAIs					
	S&P	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Ba3	B+ to C	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB to BB	B to D	Unrated
Exposure Class	MARC	AAA to AA-	A+ to A-	BBB+ to BB-	B+ to D	Unrated
On and Off Balance-Sheet Exposures						
Corporates		333	22,061	-	-	2,685,642
Total		333	22,061	-	-	2,685,642

Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Interim Disclosures (Cont'd)

1) Credit Risk (Cont'd)

i) External Credit Assessment Institutions (Cont'd)

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	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
Exposure Class	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
On and Off Balance-Sheet Exposures							
Sovereigns & Central Banks		**-**	**2,056,773**	**-**	**-**	**-**	**-**
Total		**-**	**2,056,773**	**-**	**-**	**-**	**-**

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	Ratings of Sovereigns and Central Banks by Approved ECAIs						
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
Exposure Class	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
On and Off Balance-Sheet Exposures							
Sovereigns & Central Banks		-	1,786,547	-	-	-	-
Total		-	1,786,547	-	-	-	-

Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Interim Disclosures (Cont'd)

1) Credit Risk (Cont'd)

i) External Credit Assessment Institutions (Cont'd)

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	Ratings of Banking Institutions by Approved ECAIs						
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BBB3	BB1 to B3	C1+ to D	Unrated
Exposure Class	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
On and Off Balance-Sheet Exposures							
Banks, MDBs and FDIs		**142,877**	**44,784**	**89,451**	**6,480**	**-**	**489,273**
Total		**142,877**	**44,784**	**89,451**	**6,480**	**-**	**489,273**

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	Ratings of Banking Institutions by Approved ECAIs						
	S&P	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	Moodys	Aaa to Aa3	A1 to A3	Baa1 to Baa3	Ba1 to B3	Caa1 to C	Unrated
	Fitch	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	CCC+ to D	Unrated
	RAM	AAA to AA3	A to A3	BBB1 to BBB3	BB1 to B3	C1+ to D	Unrated
Exposure Class	MARC	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	C+ to D	Unrated
On and Off Balance-Sheet Exposures							
Banks, MDBs and FDIs		33,287	192	-	-	-	64,902
Total		33,287	192	-	-		64,902

(f) Risk management policies (Con'td)

1) Credit Risk (Cont'd)

ii) Credit risk mitigation ("CRM")

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

The Bank's policy when granting credit facilities is on the basis of the customer's capacity to pay, rather than placing primary reliance on credit risk mitigation. Depending on the customer's standing and the type of product, facilities may be provided unsecured. Mitigation of credit risk is nevertheless a key aspect of effective risk management and in the Bank, takes many forms. There is no material concentration of credit risk mitigation held.

The Bank's general policy is to promote the use of credit risk mitigation, justified by commercial prudence and good practice as well as capital efficiency. Specific, detailed policies cover acceptability, structuring and terms of various types of business with regard to the availability of credit risk mitigation, for example in the form of collateral security, and these policies, together with the determination of suitable valuation parameters, are subject to regular review to ensure that they are supported by empirical evidence and continue to fulfill their intended purpose.

The most common method of mitigating credit risk is to take collateral. The principal collateral types employed by the Bank are as follows:

• under the residential and real estate business; mortgages over residential properties and financed properties;
• under certain Islamic specialised financing and leasing transactions (such as vehicle financing) where physical assets form the principal source of facility repayment, physical collateral is typically taken;
• in the commercial and industrial sectors, charges over business assets such as premises, stock and debtors;
• facilities provided to small and medium enterprises are commonly granted against guarantees by their owners/directors;
• guarantees from third parties can arise where facilities are extended without the benefit of any alternative form of security, e.g. where the Bank issues a bid or performance sukuk in favour of a non-customer at the request of another bank;
• under the institutional sector, certain trading facilities are supported by charges over financial instruments such as cash, debt securities and equities; and
• financial collateral in the form of marketable securities is used in sell and buy back agreement in the Bank's securities financing business. Netting is used, where appropriate, and supported by market standard documentation..

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt of cash, securities or equities. Daily settlement limits are established for counterparties to cover the aggregate of the Bank's transactions with each one on any single day. Settlement risk on many transactions, particularly those involving securities and equities, is substantially mitigated by settling through assured payment systems or on a delivery-versus-payment basis.

Policies and procedures govern the protection of the Bank's position from the outset of a customer relationship, for instance in requiring standard terms and conditions or specifically agreed documentation permitting the offset of credit balances against financial obligations and through controls over the integrity, current valuation and, if necessary, realisation of collateral security.

The valuation of credit risk mitigants seeks to monitor and ensure that they will continue to provide the secured payment source anticipated at the time they were taken. Where collateral is subject to high volatility, valuation is frequent; where stable, less so. The Bank's policy prescribes valuation at intervals of up to two years, or more frequently as the need may arise. For property taken as collateral for new or additional facilities, a valuation report must is required from a panel valuer. If the property value declined by a material extent, i.e. a drop in the value of the property by more than 20%, a formal written valuation should be obtained. For auction purposes, full valuations are compulsory. This is to avoid the risk of the settlement sum being challenged by the customer / charger on the grounds that the correct valuation was not applied.

The Bank's panel of approved valuation companies is subject to an annual review. This takes into consideration the company's financial standing, accreditations, experience, professional liability insurance, major clients and size of its branch network.

Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Interim Disclosures (Cont'd)

1) Credit Risk (Cont'd)

ii) Credit risk mitigation ("CRM") (Cont'd)

The table below shows on and off balance sheet exposures before and after credit risk management.

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Exposure Class	Exposures before CRM	Exposures Covered by Guarantees / Credit Derivatives	Exposures Covered by Eligible Collateral
Credit Risk			
On-Balance Sheet Exposures			
Sovereigns/Central Banks	2,056,773	-	-
Public Sector Entities	-	-	-
Banks, Development Financial Institutions & MDBs	676,593	-	-
Insurance Cos, Securities Firms & Fund Managers	-	-	-
Corporates	3,486,290	47,976	50,962
Regulatory Retail	2,392,020	955	23,355
Residential Mortgages	1,368,576	-	982
Higher Risk Assets	-	-	-
Other Assets	183,074	-	-
Specialised Financing/Investment	-	-	-
Equity Exposure	-	-	-
Securitisation Exposures	-	-	-
Defaulted Exposures	62,405	-	1,350
Total for On-Balance Sheet Exposures	**10,225,731**	**48,931**	**76,649**
Off-Balance Sheet Exposures			
OTC Derivatives	100,545	-	-
Credit Derivatives	-	-	-
Off balance sheet exposures other than OTC derivatives or credit derivatives	1,392,437	1,060	13,379
Defaulted Exposures	445	-	-
Total for Off-Balance Sheet Exposures	**1,493,427**	**1,060**	**13,379**
Total On and Off-Balance Sheet Exposures	**11,719,158**	**49,991**	**90,028**

Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Interim Disclosures (Cont'd)

1) Credit Risk (Cont'd)

ii) Credit risk mitigation ("CRM") (Cont'd)

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Exposure Class	Exposures before CRM	Exposures Covered by Guarantees / Credit Derivatives	Exposures Covered by Eligible Collateral
Credit Risk			
On-Balance Sheet Exposures			
Sovereigns/Central Banks	1,786,547	-	-
Banks, Development Financial Institutions & MDBs	77,914	-	-
Corporates	2,426,978	1,834	55,100
Regulatory Retail	1,708,832	1,402	17,105
Residential Mortgages	499,816	-	124
Higher Risk Assets	-	-	-
Other Assets	90,315	-	-
Equity Exposure	-	-	-
Defaulted Exposures	56,866	-	719
Total for On-Balance Sheet Exposures	6,647,268	3,236	73,048
Off-Balance Sheet Exposures			
OTC Derivatives	20,467	-	-
Off balance sheet exposures other than OTC derivatives or credit derivatives	408,388	77	11,926
Defaulted Exposures	269	-	-
Total for Off-Balance Sheet Exposures	429,124	77	11,926
Total On and Off-Balance Sheet Exposures	**7,076,392**	**3,313**	**84,974**

Refer to Note 33 of the financial statements at 31 December 2011 for disclosure of off-balance sheet and counterparty credit risk.

(f) Risk management policies (Con'td)

1) Credit Risk (Cont'd)

iii) Counterparty Credit Risk ("CCR")

In respect of counterparty credit risk exposures which arises from over-the-counter (OTC) derivative transactions, sell and buyback agreement transactions and credit derivative contracts, a credit limit to counterparty credit risk arising from the relevant transaction is assigned, monitored and reported in accordance with the Bank's risk methodology. The credit limit established takes into account the gross contract amount and the future potential exposure measured on the basis of 95 percentile potential worst case loss estimates for the product involved. These methods of calculating credit exposures apply to all counterparties in the transaction and differences in credit quality are reflected in the size of the limits.

The credit equivalent amount and risk-weighted amount of relevant transaction is determined following the regulatory capital requirements. The risk-weighted amount is calculated in accordance with the counterparty risk weighting as per the standardised approach.

The policy for secured collateral on derivatives is guided by the Bank's Internal Best Practice Guidelines ensuring the due-diligence necessary to fully understand the effectiveness of netting and collateralisation by jurisdiction, counterparty, product and agreement type is fully assessed and that the due-diligence standards are high and consistently applied.

Refer to Note 33 of the financial statements for disclosure of off-balance sheet and counterparty credit risk.

2) Profit rate risk / rate of return risk

Qualitative and quantitative information on profit rate risk / rate of return risk in the banking book is presented in Note 4 d) to the financial statements.

3) Shariah Governance

Overview

Shariah compliance is a cornerstone of Islamic banking and finance industry. An effective Shariah governance policy enhances the diligent oversight of the Board of Directors, the Shariah Committee and the Management to ensure that the operations and business activities of the Bank remain consistent with Shariah principles and its requirements.

To ensure Shariah compliance in all aspects of day-to-day Islamic finance activities, the Malaysian regulatory bodies such as BNM and Securities Commission (SC) have spelled out several provisions in relation to the establishment of a Shariah Committee and an internal Shariah Department in an Islamic Financial Institution (IFI). The Shariah Committee is an independent Shariah advisory body which plays a vital role in providing Shariah views and rulings pertaining to Islamic finance. The Shariah Committee also acts as a monitoring body to maintain Shariah compliance in the operations and business activities of the IFI. At the institutional level, the Shariah Department acts as an intermediary between the Shariah Committee and the Management team of the IFI. The Shariah Department together with the Shariah Committee has the role to assist the Management in ensuring that all activities of the IFI are in compliance with the Shariah rules and principles. However, the accountability to ensure Shariah compliance remains with the IFI's Board of Directors.

Qualitative Disclosures - Key Components and Core Shariah Functions in Implementing and Monitor the Shariah Governance Practices

The governance structure of the Bank and the primary responsibilities of each function are set out below:

a. Board of Directors
To be ultimately accountable for the overall Shariah governance and compliance in the Bank.

b. Shariah Committee
To maintain an oversight on the operations and business activities of the Bank and to be accountable for its decisions, views and opinions on Shariah matters.

c. CEO and Management
To be responsible in day-to-day compliance with Shariah in all aspects of its business activities by observing and implementing the Shariah rulings and decisions made by the SAC and the Shariah Committee and to identify and refer any Shariah issues to the Shariah Committee for its decisions, views and opinions.

d. Shariah Audit
To conduct periodical assessment to provide an independent assessment and objective assurance of the effectiveness on the internal control system for Shariah compliance.

e. Shariah Department

1. Shariah Review

To regularly review the operations and business activities of the Bank in compliance with the Shariah requirements.

To ensure that all procedural guidelines, rules and regulations issued by BNM, SC and other regulatory bodies relating to Shariah as well as internal guidelines, policies and procedures, manuals and all Shariah rules and principles issued by the Shariah Committee and Shariah Department are adhered to, with due regard to the business needs and Shariah requirements.

2. Shariah Advisory & Business Development

To provide day-to-day Shariah advice and consultancy to relevant parties, including those involved in the product development process as well as the supporting functions.

3) Shariah Governance (Cont'd)

e. Shariah Department (Cont'd)

3. Shariah Research

To conduct in-depth research and studies on Shariah issues.

4. Shariah Training

To cooperate with the relevant parties in educating the staff of HSBC Amanah and HSBC Bank on the Shariah principles relating to Islamic banking and finance as well as to create awareness and instill Shariah compliance culture.

5. Shariah Secretariat

To coordinate meetings, compile proposal papers, prepare and keep accurate record of minutes of the decisions and resolutions made by the Shariah Committee, disseminate Shariah decisions to relevant stakeholders and engage with relevant parties who wish to seek further deliberations from the Shariah Committee.

Quantitative Disclosure

There were no Shariah non-compliant income or event which occurred during the financial year ended 31 December 2011.

4) Restatement of comparative figures

Comparative figures for Table 1, 2, 7, and 9 have been restated/reclassified to conform to current year's presentation due to a change in the internal classification of states making up the geographical region. The restatements made are not material. Refer to the Risk Weighted Capital Adequacy Framework (Basel II) Pillar 3 Disclosures as at 31 December 2010 for the comparative figures prior to restatement.